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*The*  
**ECONOMIC  
DIGEST**

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**ECONOMIC RESEARCH COUNCIL**

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## *The Economic Digest*

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*The*  
**ECONOMIC DIGEST**

OCTOBER, 1950

VOLUME III NUMBER TEN

*Joint Editors:* Sir Geoffrey Bracken, K.C.I.E., C.S.I., H. S. Goodwin

**SEEN IN PERSPECTIVE**

**First Thoughts on Defence**

by GRAEME DORRANCE

**S**INCE the end of the immediate demobilisation period the economic problem requiring primary attention by the United Kingdom has been the balance of payments. The problem remains a serious one. However, if appropriate arrangements can be made within the North Atlantic Pact machinery, after the forthcoming United States elections, it will be possible to relegate the problem to a secondary, if still important place. Already the Canadian Parliament has taken the first steps by authorizing the expenditure of 300 million dollars on military supplies for other member signatories of the Pact.

In the immediate future the internal repercussions of the new defence programme will produce the most serious consequences. In this note an attempt will be made to deal only with the most important basic considerations which should govern our economic defence policy.

The first principle to be remembered is that it is a *defence* programme, *not* a war programme. Extra resources will have to be diverted to the armed forces, yet all plans must allow for the fact that, if the defence policy fails to preserve peace, extra expenditure will be required for actual war.

Thus we must be prepared for still further expansion.

The second principle is that we already have a full-employment economy. In 1914 there was a reasonable amount of unemployment; and at the start of the 1935 rearmament programme and even at the time of its rapid expansion after 1937, unemployment was itself a serious problem. At the present moment, with practically no significant unemployed man-power in the United Kingdom, and with almost every industry producing at full capacity, the picture is radically different. If resources are to be devoted to war production they must now be diverted from other uses. It is not yet a question of "guns or butter" but it is one of "signal equipment or television sets."

The third principle is that we are engaged in an ideological struggle with Communism. If the defence programme is to be successful it will have to combat Communism by more than "sabre rattling" at Stalin.—We must also take positive action to demonstrate that we wish and intend to do our best to raise living standards throughout the world. To cut the ground from under the feet of Communist agitators in Africa, Asia, and Europe

may be a more effective form of defence than making plans to cut the throats of Communist aggressors in Europe, Asia, and America.

The fourth principle is that the defence programme may be short-lived. If the Western World shows that it is prepared to resist aggression, it may prevent that aggression. There may even result a new atmosphere in international relations. Thus it may be possible to bring the programme and all its consequences to an end. We should then be faced again by the basic problems of the last five years.

### Uses of Inflation

The first problem of the defence programme will be: Where are the resources to come from? If steps are not taken to divert resources from other uses the only alternative will be to allow an inflation to do the job.

A limited degree of inflation can be a useful instrument to assist a quick diversion at the start of a war. Yet it is a weapon with dangerous ancillary effects and can only be used safely at considerable intervals. We may need to use it if later we are forced to shift from a defence to a war programme. At the present time we must therefore reject it resolutely and search out the places from which we can divert resources.

Several targets have been suggested:

1. Export production, preferably by reducing "unrequired exports."
2. The capital investment programme.
3. Government expenditure.
4. Consumption.

The export drive is bound to be hindered by the rearment programme. If we expand armament production quickly it is probable that we shall be less able to meet delivery dates for exports of vehicles and machinery. But every effort should be made to limit the effect to the

smallest proportions. Between 1940 and 1945 we sacrificed to the war effort our export sales, and this contributed to the seriousness of the post-war balance of payments problem.

If the defence programme achieves its aim (peace) in the near future, it may be possible to bring it to an end. With its conclusion we should cease to receive special aid from our allies and would once again have to rely on our own resources. Then we would be faced with the need for a renewed export drive. We must do our best now to be "in condition" for the post-defence problems.

To argue that this reasoning is sound with regard to "hard-currency" markets but unsound for "soft currency" areas is also dangerous. The soft-currency areas are the ones to which we are sending "unrequired exports," and the drain on our resources provides an attractive source of supplies for war production. Yet the countries to which they are sent are, mainly, the under-developed ones—the very areas in which we must prove that we intend to raise living standards.

### Other Sources

There is no doubt that we must make economies in our resources. Our capital export policy must be kept under constant review. Whenever unrequired exports are going to countries where little benefit accrues to us, steps must be taken to limit them. But if we wish to follow an aggressive anti-Communist campaign, aimed at reducing poverty to the greatest extent possible, we may be faced with increased rather than diminished unrequired exports.

The great similarity between many of the home investment products and military needs makes our capital investment programme another attractive source of supplies for defence. It is quite easy to argue that all we have

to do is reduce the output of delivery vans and it will be easy to increase the supply of jeeps: the argument was used and applied effectively during the last war. Yet we must remember that the very existence of a defence programme means that we may have to face a war programme in the near future.

If this should happen we will want even greater production than we have at present. This will only be possible if we continue the capital investment programme at about its present level. Undoubtedly the change in circumstances warrants a review of the relative importance of its components. But to plan on the basis of finding extra resources for defence by cutting back total investment plans is to ignore the essential nature of a defence programme.

Even if there is a little leeway to be found in the export and capital goods industry, it may be argued that all that is required are some stringent economies in the field of Government expenditure. With total Government outlays for the current fiscal year estimated at almost £4,000 million before the recently proposed increases on defence expenditure, this looks to be a promising field.

It is argued that expenditure could be reduced by making administrative economies, thus providing £400 million of resources. This argument completely ignores the nature of present day government expenditure. The estimates shown at the top of the next column, are taken from The Financial Statement (1950-51) and the 1950 National Income White Paper and they break the figure into its components.

Undoubtedly every possible economy should be exercised in each of these fields to ensure that we get

Total Government Expenditure	£3,975 million
of which:	
Transfer Payments	£1,400 million
National Debt Charges	£ 500 " £1,900 "
Expenditure on Goods and Services	£2,075 "
of which:	
Defence	£ 790 "
Capital Investment	£ 575 "
Health Services	£ 395 "
Terminal Charges etc. of last war	£ 10 " £1,830 "
"Other"	£ 245 "

the best value for our money. But it is only in the "Other" category that we can expect economies to be made which will effectively release resources once we decide on an expansion of the defence programme. The only alternatives are to reduce the health services or the investment programme. A reduction in expenditure of 40 per cent. would thus be required to produce £100 million, and would be quite insufficient for the proposed programme. This field seems to provide little hope in our search for available resources.

All these arguments appear to lead to the inevitable conclusion that the resources will have to be found by reducing consumption expenditure. This does not necessarily mean that personal expenditure will have to be reduced below the 1949 levels, but it does mean that taxation will have to be imposed to reduce our 1951 personal consumption below what it would have been.

Every increase in production will raise the ceiling below which we will have to live and thus ease the burden. However the inevitable conclusion is that if we do not have to live on guns or butter, at least we have to choose between "defence with austerity" and "unpreparedness with ease."

# Clear the Way for Pioneers!

by PROFESSOR G. C. ALLEN

*Economic progress springs less from detailed improvements in the methods of established industries, than from massive innovations which lead to the creation of new ones*

THE efficient distribution of resources is not a once-for-all operation. An economic system cannot progress unless with the inevitable changes in circumstances it alters that distribution. This is especially important for a country that has owed part of its material well-being to superiorities that time destroys, such as those that come from exhaustible natural resources, or to an early start.

In this kind of adaptability Great Britain once showed great skill; but her achievements in this respect during the last 30 or 40 years have not matched those of her past, nor indeed those of other countries. Our industrial weakness during the inter-war years was demonstrated more by our failure to secure a substantial share of the new trades that rose during that time than it was by the probably inevitable decline of our older staple manufactures.

Lack of resilience may be regarded as a serious cause of misgivings about the future, for economic progress is associated far more with a capacity to take the lead in new industries than it is with steady technical progress in the old. This is particularly true of a country that occupies a position like ours in the world. With superiority in natural resources gone, and with the knowledge and experience of established industrial technique widely spread among the peoples, we can hope

to maintain a high rate of progress only if we show imagination in scouring out new channels.

This brings me to the proposition which lies at the heart of my theme. It is that economic progress springs less from the detailed improvements effected in the methods of established industries than from massive innovations which lead to the creation of new ones, i.e. not so much upon steady progress in turning out familiar things (although, of course, that is important enough) as upon the discovery of new ways of producing those things. If this is true then of all the forces that make material progress possible, industrial leadership is the most powerful. The key to progress is held by the man who is capable of effecting novel combinations of resources, often for the creation of fresh classes of goods.

## The Forceful ones . . .

I do not think that anyone who studies the development of any economically progressive country over the last century can fail to agree about the major part that has been played by a comparatively small group of forceful pioneers.

In his role as the chief contributor to material progress, the industrial leader is not concerned merely with meeting existing demands by fresh combinations of resources. His

equally important function is the creation of new demands.

"Innovations in the economic system do not as a rule take place in such a way that, first, new wants arise spontaneously in consumers and then the productive apparatus swings round through their pressure. . . . It is the producer who as a rule initiates economic change, and consumers are educated by him if necessary ; they are, as it were, brought to want new things. . ." (Marshall)

No one would deny that the process of creating new wants, or of diversifying existing wants, is attended at times by waste. But whether in such a society as our own we need to charge our bureaucrats with the responsibility of protecting us against that waste and of saving us from the possible social disaster of getting what the innovators and their publicity agents make us think we want is a question which, fortunately, lies beyond the scope of this paper. I steer my discourse warily away from these speculations towards a purely economic question upon which the argument may throw some light.

Theoretical economic analysis commonly proceeds on the assumption that a business man, when acting rationally, enlarges his output to the point at which his net profits are maximised ; but this assumption seems to be refuted by the common observation that the general run of business man is content to stop short of that point. His aim is rather to ensure to himself over a long period an income which enables him to maintain a customary standard.

Now, in an unprogressive society, or even in a protected sector of a progressive society, he is no doubt able to follow this policy. But the intrusion of a few restless, ambitious and exceptionally capable innovators into the system forces the comfortable and the psychologically well-adjusted



### PROFESSOR ALLEN

out of their routine. They must become economic men or go under.

The appetites which drive the innovators forward may, it is true, be quite other than the conscious desire to maximise profits ; indeed, their motives are obscure. Yet since pecuniary gain provides a clear demonstration of their success, their activities are likely to produce a result in conformity with theoretical expectations in their own case, and the result for industry as a whole (or for that part of it that is being affected by their innovations) may not be very different from what it would be if the theorists' assumptions were correct.

### . . . And the Routineers

This will only be true, of course, in a society in which the activities of innovators are not seriously impeded. Where law and public opinion are favourable to free enterprise, the routineers must adjust themselves to change or go out of business. But whenever defensive action by the routineers is possible, they will take it.

The action may take forms familiar

to us in our own day, restrictive practices of the kind associated with cartels and trusts, product differentiation and the like. The object of these practices is not usually the exploitation of the consumer in the crude sense, but rather the provision of insurance against a sudden change of circumstance.

The practices may win considerable public sympathy, for although the results of economic change are welcome, the change itself is disturbing. Yet a society where defensive action in support of threatened interests is generally successful, is not a society that can expect great advances in material well-being. It may therefore be a true instinct among the Americans who of all people are still the most avid of material progress, to see in cartels and monopolies the canker at the heart of the economic system.

### Established Industries

The real danger of monopoly arises when it is used to impede change. A society that keeps the channels of innovation clear need have little fear of the waste that arises from monopoly or imperfect competition in *established* industries. It is when these channels become choked that material progress slows down.

If we look back on the metal industries of the last quarter of the nineteenth century, we can see that, from the standpoint of economic progress, the significant fact was not the extent to which the output of wrought iron was then restricted by the imperfections of competition among the producers, each with his famous brand of iron, but rather the entire destruction of the older forms of production by the coming of mass-produced steel.

In the same way, I suggest, material progress in so far as it depends upon a supply of cheap textile materials will be bound up less with the success or

failure of official schemes in the United States and elsewhere for keeping up the price of raw cotton than with developments in the manufacture of synthetic or semi-synthetic fibres—developments that have already brought down the price of staple fibre below that of raw cotton.

This brings me back to a consideration of our own affairs. Because of our precarious international position, not merely an advance in our material prosperity, but even the preservation of our existing standards, depend upon our demonstrating a capacity for industrial leadership. Yet, in spite of the achievements of our scientists and inventors, there can be little doubt that during the last few decades we have fallen behind other nations in successful industrial innovation. We have seen the undermining of our position in established industries by developments that have taken place abroad rather than at home.

I can refer to only a few of the numerous causes that have been responsible. One of them, without doubt, has been the preoccupation of policy with the buttressing of threatened positions rather than with clearing the way for fresh enterprise. But policy reflects social opinion, and it may be contended that this has been hostile to the exercise of industrial leadership. Sixty years ago Marshall noted that while economic progress did not necessarily require the maintenance of those rights of property that lead to extreme inequalities of wealth, it did depend upon the existence of a social milieu sympathetic to the exercise of free, individual responsibility.

The British business man today is under insidious temptations to dissipate his energy. Consider the advisory committees, working parties, councils, and associations, both official and unofficial, that have proliferated in recent years! Centralised economic

planning, moreover, necessarily restricts the functions of the industrial leader, for it leaves little opportunity for what has been called the very essence of free enterprise, namely "the concentration of responsibility in its two aspects of making decisions and taking the consequences of decisions when put into effect." Under planning the business man cannot on his own responsibility create new combinations of resources ; he becomes merely the administrator of such resources as are allotted to him for given purposes.

We cannot yet find, I think, any example of a State's having been responsible for developing successfully industries of an entirely novel kind in advanced societies, except perhaps those that serve military needs.

When the government intervenes in such societies, it concerns itself with what is already established. It plans in relation to what exists, not in relation to what may be called into existence. Its tenderness for what already exists may even jeopardise the birth of new ventures, for economic advance frequently involves the destruction of established positions and the decay of industries that have become obsolete.

Nowadays the British business man is tempted to dissipate his energies in committees, working parties, councils, associations, and many other bodies. Under planning he cannot on his own responsibility create new combinations of resources ; he becomes merely the administrator of such resources as are allotted to him for given purposes.

A government can hardly be expected to take up new and untried ventures and to persist, in spite of disappointment and public criticism, in carrying them over the harassing period of experimentation until they have become transformed into new industries.

In the end the problem for government as for private enterprise becomes that of selecting the right person and of giving him scope for the exercise of his powers. The State may do this just as well as private enterprise for established undertakings, but it is not easy to see how it can carry out this function in the case of ventures which are in process of being born, for the men who are likely to do best in them are generally still young, unknown and untried.

#### O.E.E.C. SUPPORTS THE B.I.S. ARGUMENT

(See page 469)

In some countries Governments have pursued a policy of public saving through the maintenance of surpluses on the current Budget. This implies that taxation was at a higher level than would have been necessary to meet current expenditure. Some reduction of private savings may have resulted, and hence the net addition to total saving, both private and public, was probably less than the surplus itself. As well as reducing private savings, high direct taxes may also adversely affect incentives and hence the rate of increase of production, while high indirect taxes tend to increase prices. Even where it is possible to hold taxes at the high level required, there is a limit to the amount of saving Governments can directly undertake.

# Economics of Preparedness

by SIR HUBERT HENDERSON

*Armaments cost money. Where will it come from? If health and educational services were cut, taxation might still have to be increased. Measures like these could threaten our national unity*

WHAT sort of policy offers the best chance of avoiding undue inflation while releasing adequate resources for defence? The present disposition in official quarters is to reply by stressing the importance of increasing production as much as possible.

Undoubtedly the problem will be eased if the current rate of increase can be improved upon; and it seems reasonable to hope that this may be done in some degree. The manufacture of most types of armament lends itself fairly readily to mass production methods; and the length of the ordinary working week being what it is, systematic overtime in the industries on which the pressure of defence requirement falls most heavily would be an appropriate arrangement.

On the other hand, emergency

expedients for increasing production in general, such as a lengthening of the standard working week throughout industry, or the large-scale re-employment of married women in factories, cannot prudently be used in a phase of preparation, but should be held in reserve for the contingency of actual war. Subject to this, a speeding up of the increase in production would help greatly.

None the less it would be a mistake to regard the problem solely or mainly in these terms. It is highly probable, that production will increase in the aggregate by more than the additional expenditure upon defence. The problem is to keep down sufficiently the competing claims upon this increase.

Exports and capital investment will probably have to be denied any share at all of this increase for a considerable time to come, if only for technical reasons. There remain the claims of Government expenditure and personal consumption.

If only it were feasible to cut Government expenditure for purposes other than defence by a quite moderate percentage, how simple the problem would be! After all, the additional expenditure upon defence is to average no more than £250 millions per annum over the next three years, say about 7 per cent. of the total budget figure; and it will presumably be much less than this for the next year or eighteen months.

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*"National unity is an essential condition of effective military strength. It would be unwise to push rearmament so fast as to endanger economic recovery. But the opposite danger is equally great, that a desire to evade awkward economic problems may cause individual countries to hang back, to do less than they should, to wait upon each other . . ."*

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Nor can it be disputed that our current Government expenditure contains many lavish items. It is obvious, for example, that the Festival of Britain is not strictly necessary, and it will soon become obvious that a mood of festivity will not be appropriate in 1951, or at all in keeping with renewed appeals for austerity in personal consumption. The reports of the Public Accounts Committee contain many instances of manifestly extravagant expenditure.

The greater part of the expenditure that must be deemed unduly lavish is, however, of a kind which could not be cut down so easily. But administrative action to restrict abuses can only be of limited efficacy under the present arrangements which put so much of the health service expenditure outside effective Treasury or departmental control. At present the demand for the facilities which the service offers, including that of hospital accommodation, is so greatly in excess of the supply as to necessitate the use of a rough and ready system of priorities ; and this demand will continue to grow rapidly, especially in view of the steady growth in the numbers of the elderly, so long as the principle is retained of providing free of cost to the individual any treatment which a doctor deems desirable or prudentially expedient.

The radical revision of this basic principle has indeed become urgently necessary if the expenditure on the health service is to be stopped from growing indefinitely ; but any attempt to revise it will raise many difficulties, some real and some political, as the abortive attempt to introduce a small charge for prescriptions sufficiently shows.

In other fields too, notably education, the application of existing policies, if these are left unrevised, will absorb both public money and real resources on a steadily increasing scale ; and a similar complex of admin-

istrative, idealistic and political obstacles obstructs the part of revision.

To overcome these difficulties, which are formidable, a new impulse will be required. Is it too much to hope that this may now be forthcoming in response to the gravity of the times ?

This question may well supply a crucial test of British statesmanship. For if this task is shirked, a lowering of the present average standards of personal consumption will then become inevitable ; and this can hardly be effected without much friction prejudicial to production and deep internal dissensions which may paralyse the national will.

Consider the dangers which lie along this road. In face of the rise in personal incomes which is inevitable, there are only two means by which personal consumption can be forced down or kept from growing ; increased saving or higher taxation. The outlook for personal saving is anything but good : and it becomes



SIR HUBERT HENDERSON

still worse if taxation is further increased.

Taxation, both direct and indirect is already very high, so high as to involve long-run injurious consequences which are now beginning to appear. It is true that since the end of the war, there have been various remissions of income-tax, affecting more particularly ranges of income, and amounting in all to a substantial sum ; and that in an extremity, as Sir Stafford Cripps has pointed out for our reassurance, the remitted taxes might be reimposed.

But this is another instance of the sort of expedient which should be held in reserve for the contingency of war, and not used up for the purpose of peace-time preparation. Further re-imposition of these taxes would necessarily fall most heavily on the lower income groups. The larger surtax payers who have been carefully excluded from any share in the concessions would not be hit at all. Such a financial policy would not commend itself to mass opinion. Yet the rich are at present so heavily "soaked" that it would be anything but easy to devise a scheme for substantially increased taxation which would not be open to egalitarian attack and yet be defensible on merits.

It is doubtless arguable that the exploitation of class antagonism cannot be excluded from our party politics in ordinary times. But no one with a sense of responsibility can suppose that we could afford to indulge in it today. National unity has always been an essential condition of effective military strength. It is an essential condition of effective strength. It is now an essential condition also of greater solidarity in Europe and the Western world. For this reason there is sense in the caution conveyed in the British Government's reply to the United States that it would be unwise at this juncture to push rearmament so fast as to endanger economic recovery. Certainly it is important to avoid drawing the bow too tight.

But the opposite danger is at least equally great, that a desire to evade awkward economic problems may cause individual countries to hang back, to do less than they should, to wait upon each other in a manner reminiscent of Lord Chatham and Sir Richard Strachan. Much will turn on the example which Great Britain sets ; and the effort which we succeed in making, and in sustaining over the next few years will depend largely on the discernment we display in economic policy.

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#### ECONOMIC RESEARCH COUNCIL DISCUSSIONS

Non-members will be welcome at any of the following meetings, if they will notify the Secretary at 18, South Street, London, W.1. (Grosvenor 4581) : Wednesday, October 4—Mr. S. R. Dennison, Cambridge, on "Some Problems of stabilisation." Wednesday, November 1—Mr. Anthony Crosland, M.P., Trinity College, Oxford. (Subject to be announced later). Wednesday, December 6—Dr. Ffrangcon Roberts, Cambridge, on "The Health Service's Limitless Commitments."

All meetings begin at 8 o'clock and will be in the Angus Room, 55, Park Lane, London, W.1. and each address is followed by questions and discussion. Any person interested in economics is eligible for membership of the Economic Research Council. Details may be had from the Secretary.

# Too Much Welfare?

*What is the impact of real problems on Socialist theories?  
Study of experience in Norway and Sweden could save  
others from learning the lessons the hard way*

SOCIAL democracy, as it can be observed in practice in Norway and Sweden, has differences of degree rather than of kind from the policies of most other parties in western Europe. The aims of full employment and social security are widely shared, and there are few who would now assert that nationalization is never desirable or that no economic controls are necessary.

Differences in emphasis result from varying strengths in the pull of capital and labour, from conflicting estimates of the comparative disadvantages of poverty and industrial licence on the one hand and high taxation and obstructive controls on the other. Nevertheless the trend is general.

It is arguable that the greatest danger of the trend towards the welfare State is not to be found in the economic dogmas of the believers in Socialism or free enterprise, but in the over-emphasis on welfare that is common to both.

Once it is generally accepted that the State owes a man a living whether he earns it or not, the seeds of decay will begin to grow. If an enterprise can earn good profits

without efficiency and a worker can earn high wages without skill, then efficiency and skill will decline. The more the under-dog is coddled the more under-dogs there will be.

These things are happening. In Scandinavia as well as in this country and elsewhere the wages of the unskilled have come so near those of the skilled that industry is suffering because of it. The secret of ensuring managerial efficiency in conditions of full employment has not yet been found.

## Outlets for Talent

No one will quarrel with the desire to remove great inequalities of wealth or to make it hard to live on incomes that have not been earned. Equality of opportunity is vital to enable us to make the best use of our native talent.

But if we are to build an economically fit nation—and without it we may not long survive—we must make sure not only that no talent is lost for lack of opportunity but also that skill and industry receive a just reward—and a reward that cannot be obtained without them.

*From The Times (Leader), August 11, 1950*

# What is Socialism? . . .

by PROFESSOR JOHN JEWKES

*The doctors differ, even after five years of Labour government, which have however done nothing to invalidate classic economic principles*

**W**HAT is Socialism? On this point the new documents make for confusion.

Professor Lewis, in his recent book *THE PRINCIPLES OF ECONOMIC PLANNING*, says: "Socialism is not, in the first instance, about property any more than it is about the State. Socialism is about equality. A passion for equality is the one thing that links all Socialists; on all others they are divided." "The first aim of Socialists, prized above all others, is equality of income."

But Professor Cole, in his *SOCIALIST ECONOMICS* also published recently declares that he has written his book partly because he does not subscribe to a "growing tendency to think of Socialism as concerned almost solely with the distribution of the national income and not with the conditions under which it is produced".

And Mr. Jay has recently said that "planning, public ownership and fairer distribution of incomes and property by taxation are the most important means (to Socialism). But they are only means and not ends in themselves".

As Professor Lewis admits, Socialists differ about most things. But they obviously do not, as he thinks, agree about the overriding priority of equality of income as an end in itself. To others it is a subsidiary end or simply a means to some broader

aim. Most Socialists, however, would be prepared to say they "believe" (whatever that word connotes) in equality of income. No one, however, seems to have faced up squarely to the definition of equality. Does it imply arithmetical equality or some greater measure of equality than now exists?

Professor Lewis appears to be frank about this. He calls for equality of income from property, by equalizing the distribution of property. Inequality of earned income he regards as a "secondary issue" but he commits himself to the proposition that "no man is worth £10,000 a year and in our present state of poverty, only a few very exceptional men deserve to exceed £2,000 a year".

## Evasions of Professor Lewis

Professor Lewis' statement, however, is really very evasive. Is he talking of post-tax or pre-tax income? Upon what basis are his figures chosen? What assessment of desert is embodied in them? What is his definition of property?

Would he insist upon restricting the consumer's rights to choose between spending his income on quickly consumed services (such as betting) and spending his income on durable commodities (such as a house)? If so, what becomes of his insistence upon consumers' freedom? If not,

how does he propose to keep property equally distributed?

Upon what grounds does he exclude from property the exceptional skill acquired by the training of the professional?

Ideologically, Professor Lewis' approach seems to imply a process of the "withering away" of Socialism. For clearly, as a community moves towards greater equality, a point must be reached when Socialists differ as to whether redistribution should be pushed further. They will then be disunited on the only thing which, according to him, at present unites them. Can it be that Socialism is already withering away for this reason?

Professor Cole also believes in equality. But, after providing a basic minimum for all, he would allow differentials for incentive and also consider "special claims". Moreover,

he confesses that

there is at present in all advanced communities a sentiment in favour of equality . . . this may always continue to be the case . . . the desire of some Socialists . . . to advance towards complete equality may never be realized.

And he continues

the state of opinion in a society on the question of equality and inequality of incomes is bound to be taken into account.

If I understand aright, this means that a Socialist may be a good Socialist if he believes in inequality provided only that he holds that the public favours such a degree of inequality.

It is difficult to conceive of the unity of Socialism in the absence of any overriding criterion of what constitutes a Socialist.

### ... and Eight Classic Maxims

**V**IEWS may now again be expressed and treated with respect which five, even three years ago, would have been deemed outrageous.

(1) A nation cannot be master of its own economic destiny in the sense of being able to decide what its standard of living will be independently of its own exertions.

(2) It is not possible to engineer, still less to forecast, the economic future.

(3) No nation can have a master economic plan without conscripting labour.

(4) A nation which has a master economic plan has tied a millstone around its neck in any efforts it makes to foster international economic co-operation.

(5) No nation can plan to keep rigid at one and the same time both its

internal price level and its exchange rate.

(6) Men will normally be more conscious of, and more readily prepared to work for, the service of their own immediate group, particularly the family group, than for some vaguer conception of the community.

(7) If goods are to be distributed equitably and are to yield the utmost satisfaction, the right way to do this is to bring about the appropriate redistribution of income and then allow people to spend their money as they wish instead of subjecting everybody to the squalid regimentation of the standard quantitative ration.

(8) There is no measure of the efficiency of an industrial organization except cost and no effective way of guaranteeing efficiency except competition on the basis of cost.

# Implications of "Fair Shares"

*The whole of the annual increase in production is needed to pay for armaments. As long as this situation lasts, the size of the cake available to consumers is not likely to increase*

THE increase in the cost of living since 1939 has not been uniform. Families of different kinds have been differently affected. Rent control and subsidies have kept some prices low; purchase tax and controls of other kinds have sent other prices soaring; and the pattern of prices has been further influenced by rationing and official restrictions of all sorts.

In a recent issue of the Bulletin of the Oxford University Institute of Statistics MR. DUDLEY SEERS made some estimates of the effect of these changes on people at different levels of income. In the absence of official studies of family budgets the estimates cannot be precise, but they broadly indicate the redistribution of purchasing power effected since the outbreak of the second world war.

## Different Incomes

MR. SEERS finds, not surprisingly, that the cost of living has risen more for people with higher than for people with lower incomes. He reckons that households which spent £200 a year in 1938 would need to spend £355 in 1949 to buy the same goods and services—a rise of 77 per cent. For households which used to spend £250 the rise was 84 per cent.

Above this level—which was exceeded by about only three persons in 20 before the war—the increases become progressively steeper: an in-

crease of 88 per cent. for those who spent £300 before the war, of 96 per cent. for those who spent £500, and 100 per cent. for those who spent £700.

Incomes have also risen considerably, of course, but the lower incomes have generally risen proportionately more than the higher incomes. More than that, the proportion of income taken by the tax collector has affected the higher incomes far more severely than the lower incomes.

MR. SEERS tries to estimate the combined effect of all these changes. He uses the example of the married man with two children. Such a man, he estimates, today needs earnings (including the family allowance) of £345 in order to obtain the same purchasing power as £200 of earnings in 1938—an increase of just under three-quarters.

If his earnings before the war were £300, he needs double that amount today; if they were £700, he now needs £1,760, or one and a half times more. MR. SEERS' "rough yardstick" confirms plainly enough the well-known fact that the past years have seen a great diminution of former inequalities of income. As he says:—

The commitments of the economy to produce higher exports, more social services, more arms, and more investment almost fully absorb the great increase of output over pre-war, so that consumers' real incomes are hardly in aggregate

larger. If, therefore, we need higher real incomes for the agricultural community, for those previously suffering great hardship from the inadequacy of incomes to maintain health, and for those working in industries intrinsically unattractive (such as coalmining), then the real incomes of others cannot reach pre-war levels.

The change has not been brought about according to any clearly conceived ideal system of incomes and rewards or nicely calculated plan for economic progress. It is apparent, for instance, that lower taxation could help to restore incentives to economic progress and so bring benefits to everybody in larger national wealth.

Moreover, if the new pattern of incomes is examined, there is still evident maldistribution of purchasing power as between certain trades and professions, as between men and women doing the same work, or as between parents and those without children. There is not much hope,

The cost of living has risen more for people with higher than for people with lower incomes. The change has not been brought about according to any clearly conceived ideal system of incomes and rewards. Nevertheless it looks as if the distribution of incomes will have to remain broadly as it is.

however, of any important changes one way or another in present circumstances.

For good or ill, it looks as if the distribution of incomes will have to remain broadly as it is until the time when it ceases to be necessary to devote to defence at least the whole annual increase of production, if not more. The size of the cake available to consumers is not likely to increase during the next few years ; it may have to be reduced.

### CONFESION

We are an inconsistent lot. We are always talking about planning, but let anyone even whisper that the unions themselves should submit to planning and he is likely to have his block chopped off.

*B. Roberts, General Secretary of Public Employees' Trade Union  
Trades Union Congress, September 5, 1950.*

### PRODUCTIVITY COMPARISONS

Information is not available for a reliable comparison of current production with production in 1939.

*Sir Stafford Cripps, House of Commons  
July 25, 1950.*

### PRODUCTION PER-MAN-LIFETIME

Prolongation of the average length of human life means that, although during the last century the length of the average working day has decreased nearly a third, the total number of days' work in an average working life has increased by nearly one half. Consequently, the volume of production by the individual during the total duration of his life has actually increased.

*La Revue Internationale, Paris, September, 1950.*

# Going to the Flicks

*During a survey period of 13 weeks, every person of five years of age or more went to the cinema eight times on the average. In Scotland, the average attendance was ten times*

**I**N the 4,583 cinemas included in the survey there were 4,221,200 seats. The average seating capacity for the country was therefore 921, but this conceals considerable regional differences. In the South-west the average was 693 and only 22 per cent. of the cinemas had more than 1,000 seats, whereas in London and the South-east the corresponding figures were 1,212 and 55 per cent. There are similar differences between the industrial, holiday and other types of area, for which average seating capacities were 1,000, 872, and 710 respectively.

It is of interest to compare cinema seating capacity with the potential film-going population. For this purpose, children below the age of five may be excluded. In December 1949 the population aged five and over in England was estimated at 37,885,000, in Wales 2,360,000 and in Scotland 4,730,000. For the three countries the number of cinema seats was 3,375,000, 257,400 and 588,800 respectively, and the average number of cinema seats for every 1,000 persons was 89 in England, 109 in Wales, 124 in Scotland and 94 in Great Britain as a whole.

In the period under review (January 1 to April 1 1950, there were 371,063,000 payments for admission and the gross box-

office takings were £28,040,000. The average admission price was therefore 18.1d. Here again there were marked regional differences, prices in the south being higher than those in the north. The average admission price in regions south of Yorkshire and Cheshire was 20.6d., and northwards from those counties 15.5d. London and the South-east had the highest average admission price of any region—22.3d. Although London is counted as an industrial area the average price for such areas (17.7d.), was lower than that for holiday areas (20.0d.) or for other areas (19.5d.).

## Average Bookings

The extent to which cinemas were filled can be judged from the average number of times that each cinema seat was booked during the period. In Great Britain as a whole this average was 88, the regional figures varying from 74 in Wales to 97 in London and the South-east. As was to be expected in the first quarter of the year, seats in holiday areas were filled only 68 times whereas in industrial areas the average was 93 and in other areas 78.

It will be seen that every person of five years of age or more went to the cinema eight times on the

average during the 13 weeks. In Scotland the average attendance was 10 times.

Of gross takings of £28,040,000 £9,939,000 or 35.4 per cent., was stated to have been paid in Entertainment Duty. (This figure is higher than that of duty receipts by £65,000, or just over one-half per cent., presumably because of differences in accounting.) Film exhibitors were therefore left with net takings of £18,101,000; 35.9 per cent. of this amount, £6,497,000, was paid for the hire of films.

Variations between regions in the proportions of Entertainments Duty (31.4 per cent. to 38.0 per cent. of gross takings) and of film hire (33.6 per cent. to 38.5 per cent. of net takings) were not very great. They were, however, sufficient to show that in those regions where the average admission price and the rate of Entertainments Duty were high, the proportion of payments for film hire was relatively low. Nevertheless, the amount paid for film hire for each admission, which averaged 4.2d., was 4.6d. in the London area, 3.8d. in the Northwest, and 3.9d. in Scotland.

The number of cinemas that normally opened on Sundays was 2,561 with 2,708,000 seats, or 64 per cent. of all seats. The great majority of these showed a special programme on Sunday different from that shown on other days. Sunday opening was common in all regions except in Scotland and Wales where the proportion of seats available on Sundays were 9 per cent. and 11 per cent. respectively.

*"The extent to which cinemas were filled can be judged from the average number of times that each cinema seat was booked during the period. In Great Britain as a whole this average was 88, the regional figures varying from 74 in Wales to 97 in London and the South-East."*

"Industrial" areas comprise the districts centred upon Greater London and Reading, Portsmouth and Southampton, Bristol, Northampton and Hull; the Midland area of North Warwickshire, South Staffordshire and part of Worcestershire; the Leicester, Derbyshire and Yorkshire coalfields, with Nottingham and Worksop; the Potteries, the Lancashire cotton area and the West Riding woollen and steel areas; East Central Scotland; and the Development Areas of South Wales and Monmouth, Wrexham, Merseyside, South Lancashire, West Cumberland the North-east, and Scotland (but not the Highland Development Area).

"Holiday" areas include the principal seaside resorts but not inland spas and other holiday centres such as the Lake district.

"Other" areas cover the remainder of Great Britain. Although they include many detached urban districts, some of which are semi-industrial, they are predominantly rural in character, with agriculture the principal activity.

# Integration of Transport

*The policy will involve many staff adjustments, but these will be made so as to avoid loss of efficiency and to minimise hardship*

**A**N official statement of policy discloses the future pattern of the nationalised road and rail services for the carriage of freight.

Facilities by road and rail are to be developed according to the traffic for which they are specially suitable and efficient. This policy is to be introduced gradually, and integration is not expected to be completed until about four years' time.

The Commission has assured the Central Transport Consultative Committee that the scheme will not interfere with freedom of choice to send goods by the method preferred, where regular services of different kinds are available.

Rail transport is considered by the Commission to be specially suitable and efficient for:

- (1) Traffic forming complete training loads such as coal.
- (2) Serving private sidings.
- (3) Regular traffic which can be carried long distances without shunting.
- (4) Traffic such as minerals, where the handling costs are clearly less than by road.
- (5) Traffic such as grain and feeding stuffs for which the railways provide storage.
- (6) Traffic such as imports or industrial output of large bulk which must be cleared at once.

Road transport is said to be specially suited to and efficient for:

- (1) Local haulage.
- (2) Longer distance hauls where the rail costs would be higher by rail after allowing for the extra handling, packing, etc., entailed.
- (3) Loads restricted by the railway gauge.
- (4) Removals, etc., requiring skilled packing and handling.

To apply these principles the Road Haulage Executive is gradually to acquire and eventually to be responsible for all the Commission's road freight services. This Executive is to employ the railways for direct trunk haulage of long distance "smalls" and wagon load traffic where suitable terminal accommodation, containers and train services are available. In addition, it is substantially to extend feeder and distributor services.

On the other hand, the Railway Executive is to employ the road services for trunk haulage of cross-country traffic and wherever use of road services will reduce staging and transit time and facilitate rail movements in direct train loads between main centres.

The two Executives are to develop joint zonal collection and delivery schemes and it is expected that all existing zonal schemes will be con-

verted to joint ventures within two or three years. This development will provide opportunities for joint use of existing terminals and promotion of new joint terminals on modern lines under single control.

Implementation of this policy, it is stated, will necessitate many staff adjustments, but these will be made so as to avoid dislocation of loss of efficiency and to minimise hardship. As far as possible reductions in staff will be made through not replacing the normal wastage.

To provide further integration of the Commission's services there will be discussions between the Dock and Inland Waterways, the Railway and the Road Haulage Executives to define

*Facilities by road and rail are to be developed according to the traffic for which they are specially suitable and efficient. The scheme will not interfere with freedom to send goods by the method preferred, where regular services of different kinds are available. Integration will not be complete for another four years.*

the objectives and methods of integrating inland waterway services with rail and road.

#### E.C.A. ON RESTRICTIVE PRACTICES IN EUROPE

The report of the E.C.A. on the quarter ended March 31 draws attention to negative effects of the widespread private restrictive business practices in Western Europe. In large parts of Western Europe "restrictive arrangements are the normal way of doing business. Europe has paid a high price for whatever stability these arrangements bring. A good share of the technological underdevelopment, low productivity and consequent low standards of living from which many European countries suffer is traceable, directly or indirectly to the absence of competition. On the side of international trade, there is evidence that the liberalisation of governmental trade restrictions, now in progress in Europe, is being offset by a growth of international cartel controls.

As regards dual pricing, the report says that the attack on this system has had limited success to date. Some of the participating countries have recently taken action towards the elimination of dual pricing. The Belgian Government had already eliminated dual pricing in steel in November. The German commitment to reduce but not to eliminate differences between the domestic and export prices of coal was made effective. In March, Italy eliminated minimum export prices—a form of dual pricing—on cheeses and barrel staves. Sweden abolished dual prices for timber. "Although some progress has been made, it is doubtful whether unilateral steps can contribute significantly towards the complete elimination of dual pricing."

# Uniting the Non-Communist World

by PROFESSOR J. E. MEADE

*Federation is unnecessary to a "Union of Free Peoples."  
But there must be a single defence system, a uniform  
foreign policy and agreement on basic human rights*

UNION would not necessarily mean federation but it should have far-reaching powers in at least three respects: (i) a single defence force; (ii) a unified foreign policy; (iii) the preservation of the basic human rights of personal freedom.

The provision of common Union defence forces has important and fundamental economic consequences. It brings into international politics the problem of the distribution of wealth between rich and poor; it is closely connected with balance of payments problems; and it intimately affects the problems of protection and free trade. Distribution of wealth; balance of payments; free trade and protection; here are all matters which directly concern economic welfare and standards of living.

A Union of Free Peoples would need an economic-welfare agenda on which the first item would be the maintenance of full employment. Never again must people experience the mass unemployment of the 1930's. But it is pretty clear that for many years to come the first responsibility for full employment must be left to national governments rather than to the Union.

National governments have the power to raise and lower tax rates, to increase or decrease the supplies of national currencies. The only big

financial instrument in the control of a Union Government will be its expenditure on the Union's armed forces. But it would be very wrong to increase expenditure on armaments merely to give employment, or to reduce expenditure on armaments below the safety level merely in order to avoid inflation.

That does not mean that there are no important Union aspects of the full-employment problem: far from it. Suppose that a country does suffer from heavy unemployment, and that its government adopts an expansion policy in order to increase the demand for goods and services within its borders.

This will lead to an increase in its demand for imported goods and in its demand for home produced goods, some of which would otherwise have been available for export abroad. The country's imports will rise and its exports will fall; and the domestic policy designed to keep up employment will have put a strain upon its international balance of payments. You cannot keep these two separate.

This connection between national policies for full employment and the balance of payments must be the direct concern of the Union authorities. The Union cannot wash its hands of the external effect of domestic

employment policies. A country which, like the United States of America in the 1930's, has mass unemployment at home and a favourable international balance of payments, has an unequivocal duty to adopt a reflationary financial policy: this increase in demand will give employment to its own unemployed workers; and it will also increase its demands for imports and thus reduce the world's balance of payments difficulties.

On the other hand, a country which, like the United Kingdom in the last five years, has too much money chasing too few goods at home and has an unfavourable international balance of payments, has an unequivocal duty to adopt a disinflationary financial policy. This will remove its own internal inflationary pressure; and at the same time it will improve the world's balance of payment problem by making more of its products available for export and by reducing its demand for imports.

### The Way We Live

The standards of living in many backward and undeveloped regions are intolerably low in comparison with those in highly developed countries like the United States and the United Kingdom. We are apt sometimes to stress the comparison between our standard of living and the higher standards in the United States.

Any such comparisons, justifiable as they may be, dwarf into insignificance if we compare our own standards with the grinding poverty that is to be found in much of Africa or of the Far East. If the free way of life is still to appeal to men and women in these territories, a Union of free peoples must do something to raise their standards of living, even if it be at the expense of the standards which might otherwise have been reached in the wealthier countries. This is the sec-



**PROFESSOR MEADE**

ond item on the agenda.

Of course, the wealthy countries can only help those who are determined to help themselves. Most of the effort for improvement must come from the men and women in the backward areas. It is no use the wealthy countries providing unlimited quantities of wheat to a poor area in which nothing has been done to check the population growth and in which more food will merely mean more but equally poor mouths to feed. In such a case the authorities in the country itself must ensure that methods of birth control are available.

Nor is it any use for the rich countries to provide technical aid and capital equipment unless the inhabitants of the backward areas are anxious to learn and to imitate the new methods and machines. They must by hard work and savings provide much of the effort and capital which is necessary for permanent improvement. But if such conditions are fulfilled, the

wealthier countries can make an immense contribution in technical skill and in capital.

Funds are needed in backward areas to finance the import of machinery and other equipment, and to pay for food-stuffs and other necessities of life for the inhabitants while they turn to work on projects for permanent improvements and development. If the funds for capital development are given in the form of loans, they will soon involve repayment of the interest and principal back from the poorer to the wealthier countries.

Is it too far Utopian to hope that the wealthier members of the Union might make a part of the funds for economic development available in the form of direct grants rather than of loans? We have already experienced Lend-Lease and Marshall Aid. We have now the American Point Four programme for the development of backward areas and the United Kingdom's Colonial Development and Welfare Fund. Such facts give one hope.

The third item on the agenda is the removal of barriers to international trade. A removal of trade barriers would enable each country to concentrate on the production of the things which it could make most cheaply. This would increase the total production of the free world; and the burden of defence and of the economic development of backward areas could be carried more easily.

#### Grounds for Protection

But there are a number of quite proper grounds for moderate protection of national industries. Some protection may be needed to develop in peace time, industries which are needed as a war potential; and countries with a strain on their balances of international payments may have to restrict imports to what they can

afford to buy.

In financial policy, countries with an unfavourable balance of payments must be pledged to avoid inflation; and countries with a favourable balance must be pledged to avoid deflation. Countries with an unfavourable balance must be allowed to depreciate the exchange value of their currencies; but other countries must not be allowed to follow suit.

Barriers to trade between the members of the Union must be reduced—except in certain recognised cases. For example, countries with an unfavourable balance must have greater freedom to restrict imports than is enjoyed by countries with favourable balances of payments; and some special protection of certain industries must be permitted in the initial stages of economic development. Finally, funds must be provided by the richer countries to help to finance economic development in the poorer.

#### The Wrong Instrument

A centralized Union authority is not an appropriate organ for the solution of economic problems. For one thing it cannot be claimed that the problems of economic welfare have been finally solved. There is much to be said in favour of a diversity of experiments in different communities and a comparison of the results.

What is needed is an international code of good conduct and a set of economic and financial institutions to interpret and to enforce this code. Two bodies of this kind already exist, the International Monetary Fund and the International Bank. The charter of a third, the International Trade Organisation, has not yet been ratified. On the whole they provide a very reasonable code of good conduct, but they have not been adequately used and are in some respects defective.

The question at issue is whether it

is better to aim straight away at a universal solution or go ahead by means of a limited number of regional groups. The more universal approach is likely to be more efficient. It is also much easier politically for this country.

A regional Union will lead to a more economic use of resources, in so far as it enables efficient plants in one part of the Union to drive out inefficient plants in another part. But it will lead to a less economic use of resources in so far as it merely diverts trade away from efficient plants outside the Union towards inefficient plants inside the Union. A regional Union may therefore do more harm than good.

An all-round reduction of trade barriers cannot have this effect of diverting trade away from efficient outside units. Indeed, if it is completely universal, there just isn't any outside trade. So a universal agreement to cut all barriers to trade by one-half would probably improve standards of living much more than a series of regional customs unions which totally removed all obstacles on one half of the world's trade.

### An Ugly Struggle

There is another objection to the regional approach. The danger would arise of an ugly commercial struggle between large rival regional blocs—a struggle in which each group was trying to gain at the expense of the other. The alternative system of more universal reductions of all barriers could not give rise to commercial warfare between giant blocs ; the advantages which it would bring would be those of the international division of labour, from which all can gain simultaneously.

The European Payments Union is an important advance, but it leaves

*"A centralised Union authority is not the appropriate organ for the solution of economic problems . . . The question at issue is whether it is better to aim straight away at a universal solution or go ahead by means of a limited number of regional groups. The more universal approach is likely to be more efficient. It is also easier politically for this country."*

out of account the balance of payments between the European countries and the outside world. The sensible solution is to pass from a European Payments Union to a more universal payments machinery like the International Monetary Fund, so that each country need balance its payments only with all other countries combined.

This more universal organisation must have sensible rules regulating the financial and commercial policies of the countries with unfavourable balances of payments and the countries with favourable balances. Of course, it would have to have an effective way of restricting purchases from a member whose currency was scarce.

It is for us in this country to throw our weight behind the more universal approach. I do not wish to be too dogmatic on this issue. Sometimes for political or psychological reasons agreement may be possible on a regional basis when it is impossible on a wider basis ; and sometimes in such cases a regional advance will be better than nothing. It may even make a universal agreement more easy to achieve.

I think myself that this is true of the recent European Payments Union. But this is not always so ; and where there is any practical possibility of choice let reason guide us away from the purely regional approach.

# The Customs Union Issue

by JACOB VINER

*Customs Union is a poor way to deal with the problem of raising the level of economic well-being for the peoples of the world in general. The real answer is a world-wide non-discriminatory reduction of trade barriers*

If all of Western Europe were to form a single customs union, it would become more self-sufficient as a whole, but less self-sufficient as a number of parts. For the rest of the world, therefore, including the United States, its importance as an export market would probably decline. But if customs union brought greater prosperity to the area, as it should, this might more than offset the restrictive effect of the union on imports from outside the area of free trade.

For the United States, political and strategic interest in a stable, prosperous and strengthened Western Europe, and economic interest in a Western Europe able to pay for necessary imports, are clearly of much greater importance than the size of the market which Western Europe offers for American exports. Should the movement for customs union in Western Europe make rapid progress, all friendly European countries should receive invitations to participate on equitable terms.

The economic future of any European country which was left outside a Western European customs union, and was also outside the Russian economic orbit, would be grim indeed. Western European economic union would also result in there being left stranded, unless rescued by the United States,

a number of non-European economic orphans. Whatever its merits—economic, political, strategic—Western European economic union, launched under the inauspicious circumstances of open American pressure, would carry for ever a heavy burden of internal unpopularity.

The most pressing economic problem in the international field today is that of "dollar shortage", and some at least of the current drive for European customs union, or for preferential trade arrangements of other kinds, arises out of the belief or hope that it could provide at least a partial solution of this problem.

## "If" and "But"

In so far as the deficits in balances of payments of other countries in their trade with the United States can be attributed to inadequate export to the United States, customs union provides no solution whatsoever. In so far as these deficits are due to excessive imports from the United States, customs union provides a remedy of sorts.

But to use customs union as a cure would be to resort to more or less permanent and inflexible institutional changes. Even at the time of their institution, such changes could not be

directed with accuracy, and they would be unsuitable for dealing with a problem which is bound to be temporary in its location and intensity.

The solution of "dollar shortage" should be sought in measures which are less permanent in their nature, can be aimed better at the specific locations of dollar deficits, and can more easily be made available, technically, politically, and diplomatically.

### What to Do

Measures of this character would be: devaluation of other currencies as compared to the dollar; anti-inflationary fiscal policies in countries with dollar deficits; the temporary exception, with American consent, of imports from the United States from obligations to refrain from discrimination in the application of trade barriers; unilateral reduction by the United States of its trade barriers; and American financial aid to countries in balance-of-payments difficulties.

Important steps have been taken in all five of these directions, in fact, if not in form, in recent months or earlier. The problem of "dollar shortage" should not be identified with the different, less tractable, and probably more lasting problem of shortage of the things purchasable most readily with dollars because of general deficiency of real buying power.

For the long-run problem of raising the level of economic well-being for the peoples of the world in general, customs union is only a partial,

*The book from which this article was digested, is a study of the nature, purposes and mode of operation of the customs union as one special form of tariff unification. It is written from the point of view of the economist, and begins with a discussion of the question of whether a customs union is compatible with the "most-favoured-nation" principle.*

*The author goes on to consider preferential arrangements short of customs union, with special reference to imperial preference. The two next chapters deal with the economic and political aspects of customs unions, and a third with the character of the International Trade Organisation drawn up at Havana in 1948, but not yet ratified.*

*The final chapter, which is of most general interest, discusses the prospects for customs unions. Unlike the American Government and most American commentators, it is sceptical about the advisability of a European customs union under existing conditions.*

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uncertain, and otherwise imperfect means of doing what world-wide non-discriminatory reduction of trade barriers can do more fully, more certainly, and more equitably. It would be a sad outcome of confused thinking on our part if we abandoned our pursuit of the greater economic prize because of a fresh and romantic infatuation with the lesser reward.

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# Finance for Economic Development

*Investing abroad is a matter of give and take. If a country needs private capital, it must remove obstacles and make the conditions attractive. The prime responsibility for encouraging private capital movements must rest on the capital importing countries*

**T**HREE can be no expansion of international investments on the scale required today unless currencies are made freely exchangeable and transferable. But, although it is true that a substantial increase in capital movements is inconceivable without transferability, it is equally true that transferability would itself be made easier if there were an ample flow of funds from one country to another, and particularly from creditor to debtor areas.

There must therefore be action on both planes simultaneously. While every effort is made to bring about as rapidly as possible world-wide transferability of currencies, there must at the same time be a policy of active encouragement to international investments. This two-fold policy calls for a liberal interpretation of the definition of "current transactions" contained in the Bretton Woods Agreements. Should this definition nevertheless prove to be too narrow for foreign investment purposes it may be necessary at an appropriate moment to consider revising the actual terms of the Bretton Woods Agreements.

Secondly, in present-day conditions the prime responsibility for encouraging private capital movements must rest on the capital importing countries. Even with free transferability of

currencies, private capital will still refuse to venture abroad unless it can be sure of fair treatment. Whatever may have been the case in the past, today it is the exporter of capital who needs protection and reassurance against arbitrary and discriminatory policies ; the capital importing countries are fully armed to defend their interests against abuses by the investor or his government.

Investing abroad is a matter of give and take, but it is simply common sense that if a country needs private capital for its development, it must remove obstacles and make the conditions attractive in much the same spirit as a country adopts a policy of attracting, and not repelling, the foreign tourist.

## Conclusions

(a) If a country wishes to develop its economy faster than domestic savings would normally allow, it should first of all endeavour to stimulate the formation of savings at home through educational campaigns and institutional arrangements as well as through appropriate fiscal policies. Excessive reliance on domestic financing, however, can only lead either to failure or to the building-up of an artificial economic structure based on State control and autarky.

Attention is moreover directed too exclusively to projects sponsored by governments. These are necessary, but they are not the whole of the picture. At best they can supply the basic framework for the real economic expansion which can take place only through innumerable individual ventures based on private initiative, inventiveness and risk-taking. It is therefore essential also to hold out inducements to private capital and enterprise from abroad.

(b) Insufficient attention has hitherto been paid to the problem of capital formation from the point of view of the export of capital. Unless domestic policies are adopted to stimulate the formation of new capital, not enough capital will be available for export, and economic development throughout the world will be slower than it need otherwise be. The type of policy required will vary from one country to another, but in almost every case measures will have to be taken to correct excesses and anomalies in the field of taxation as well as to eliminate double taxation.

(c) Technical assistance programmes not requiring capital investment are valuable but necessarily limited in their scope. They can help to increase productivity, but they cannot of themselves give a new impetus to economic growth or bring about a radical change in a country's economic situation.

Technical assistance programmes, including "Point Four", must be regarded mostly as a challenge. The challenge is to create conditions

*There can be no expansion of international investments on the scale required today unless currencies are freely exchangeable and transferable. There must at the same time be a policy of active encouragement to international investments. This two-fold policy calls for a liberal interpretation of the definition of "current transactions" contained in the Bretton Woods Agreements. Should the definition prove to be too narrow, it may be necessary to consider revising the actual terms.*

favourable to a revival of international movements of private capital. If really significant results are to be obtained, technical assistance programmes will usually require the support of sizeable capital investments, whether private or public. New investments, in turn, whether domestic or from abroad, would profit greatly from the availability of technical assistance. It is worth noting in this connection that "direct" investment by private enterprise, almost invariably carries with it its own schemes for technical assistance.

(d) The question of governmental guarantees by the capital exporting countries is of great importance. There are cogent arguments both for and against their use, but it is in any case essential that where they are introduced, they apply only to investments in countries whose governments have undertaken to treat foreign investments fairly.

# Fuel in U.S. Defence Economy

*America's consuming needs for petroleum have expanded remarkably in the five years since World War II ended. Peak wartime demand approximated 5,700,000 barrels a day of crude oil and products. Today the "normal" peacetime requirements are as great or greater*

**W**HAT could be the impact of a major war on the nation's fuels economy? Competent opinion is to the effect that the United States could fulfil its wartime essential needs for liquid fuels.

Obviously, top priorities would be granted to the fighting services. Lesser priorities would go for the necessary industrial uses, such as transportation, shipping, and the like. The civilian public would get what was left, and in the event of a major conflict there might be severe gasoline rationing. Moreover, the civilian would have to use de-graded gasoline in his car, and might have difficulty in procuring enough fuel oil for home heating.

Of foremost importance is the apparent belief that crude oil reserves within the Western Hemisphere are adequate. Texas has a shut-in reserve capacity which approaches a million barrels daily. An even greater consideration, however, is the new and large potentiality of western Canada's oil reserves.

It is this substantial new field which has veered so much thinking, especially among Government spokesmen, away from the prospect, which seemed so real in 1945, that the United States might be compelled to create hastily and at great

cost a synthetic-fuels capacity based on coal and oil shale. Of course time would be required for developing western Canada's productivity, but this could be realized sooner than a large-scale synthetic capacity.

Oil-refining capacity, however, might be hard pressed to fulfil specialized portions of the great demands of a wartime economy. The aviation fuel of 1950 for fighting purposes would consist of gasoline in the 115 octane range, a higher quality than that consumed in the last war. Kerosene mixes for jet planes would be in enormous demand. Diesel oils for railroads and for marine and stationary power uses probably could be supplied in sufficiency.

## Ready for Anything

As for residual oils, it is reasonable to anticipate that shortages might develop in this steam-boiler market, and for home-heating fuel oils. Perhaps much new refining equipment used in ultra-modern practice might have to be installed, but in general the petroleum industry is in a far better condition of readiness than it was—along with other industries—in the early phase of World War II. Moreover, the

oil industry today has the experience for supplying the fighting services with the qualities, types, and amounts wanted.

An economic phenomenon of recent years has been the expanding role of natural gas in the nation's fuel-consuming pattern. Today this trend is very portentous on the populous, industrial Eastern Seaboard. Natural-gas suppliers are already pressed to satisfy the public demands. Enlarging the pipeline capacity would require great amounts of welded and seamless steel piping, and in a war economy the crucial need for steel might preclude the laying of new long-distance pipelines.

Next to petroleum, natural gas is the cheapest source for synthetic liquid fuels. In this connection the pioneer commercial plant on the Texas Gulf for producing synthetic liquid fuels from natural gas (chiefly methane) as the raw material is a timely development.

### Future for Synthetics

Had it not been for the great new oil potential of western Canada, there would be public advocacy today for the creation, as a measure of strategic military security, of a synthetic-fuels capacity based on coal and oil shale. The economic prospects for synthesis plants obviously depend on the availability and price of crude oil. Creation of such capacity would entail large amounts of steel and big capital investments, aside from the time-consuming task of designing and constructing the facilities.

American technology is considered superior to that of Hitlerite Germany when the Nazis created their synthetic-fuels capacity before the last war. It would seem that the prospect for synthetic-

*Competent people think that the U.S. could produce enough oil to meet the needs of war. Of foremost importance is the belief that crude oil reserves within the Western Hemisphere are adequate. However, it is significant that the petroleum industry has devoted many millions of dollars to research on synthetic liquid fuels. On this subject, valuable technical "know-how" has been acquired.*

fuels plants in this country, as commercial or wartime security ventures, has been deferred for some years.

However, it is significant that the petroleum industry has devoted many millions of dollars to researches looking toward synthetic liquid fuels. A valued technical "know-how" has been acquired. The United States Bureau of Mines continues its long-range synthetic-fuels research programme and today has pilot plants operating by the Fischer-Tropsch and hydrogenation methods, based on coal, and for producing liquid fuels from oil shale-rock. The preponderance of this nation's known reserves of mineral fuels is in the form of coal and lignite, which exist in such abundance that America can continue to use them for a few centuries to come.

### Importance of Coal

Bituminous coal continues to be the basic fuel for industrial power and for generating electricity. In a war economy, with oil committed to prosecuting the war, it is logical to anticipate that bituminous coal would have to take up more of the energy load. Possibly many fact-

ory users of fuel oil might be forced to go back to coal.

Electric utilities plants of modern practice are usually equipped to burn coal, gas, or oil, whichever is most economical. Therefore, bituminous coal could be called upon to enlarge its role as steam-boiler fuel. Moreover, those coal-fired steam locomotives still remaining on the railroads would again have to prove their sturdy and long-lived usefulness. Bituminous coal served a vital need in the last war, and in another conflict it would again do this as a matter of social necessity.

As to conditions in 1950, the bituminous coal industry has plenty of excess capacity. It deserves consideration, however, that the existing market trends and pattern of fuels consumption indicate a decline in mining capacity. In the urgency of a crisis, new mining capacity could not be quickly brought into being. Old or abandoned mines are not restored or revived simply. It would take

time to recruit and train men for the skilled machine-running jobs of modern bituminous mining practice.

The Military Petroleum Advisory Board, composed of 300 industry representatives, serves a liaison function with the military planners. For three years this Board has been studying the problems implicit in such an international crisis as the Korean fighting has in world-wide focus. A related function is that of the petroleum committee of the Munitions Board in Washington, whose responsibility is industrial mobilization as to petroleum production and the allocation thereof to the fighting forces.

The Military Petroleum Advisory Board also served the enlightened self-interest of the oil industry and of the American business system. If war should come, the oil industry would manage its affairs on the basis of experience, efficiency, knowledge, and social responsibility. Private enterprise can do it best.

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#### POUND STANDS UP TO THE DOLLAR

The dollar is still a strong currency—but not so strong as to be an uncomfortable neighbour and colleague. There seems to be no chance of an early alteration in the gold-dollar ratio. It is still the value of the dollar which determines the value of gold. During the International Monetary Fund meeting in Paris, the United States authorities again expressed their determination to maintain the existing gold parity of the dollar. It would take at least a third world war to undermine that decision.

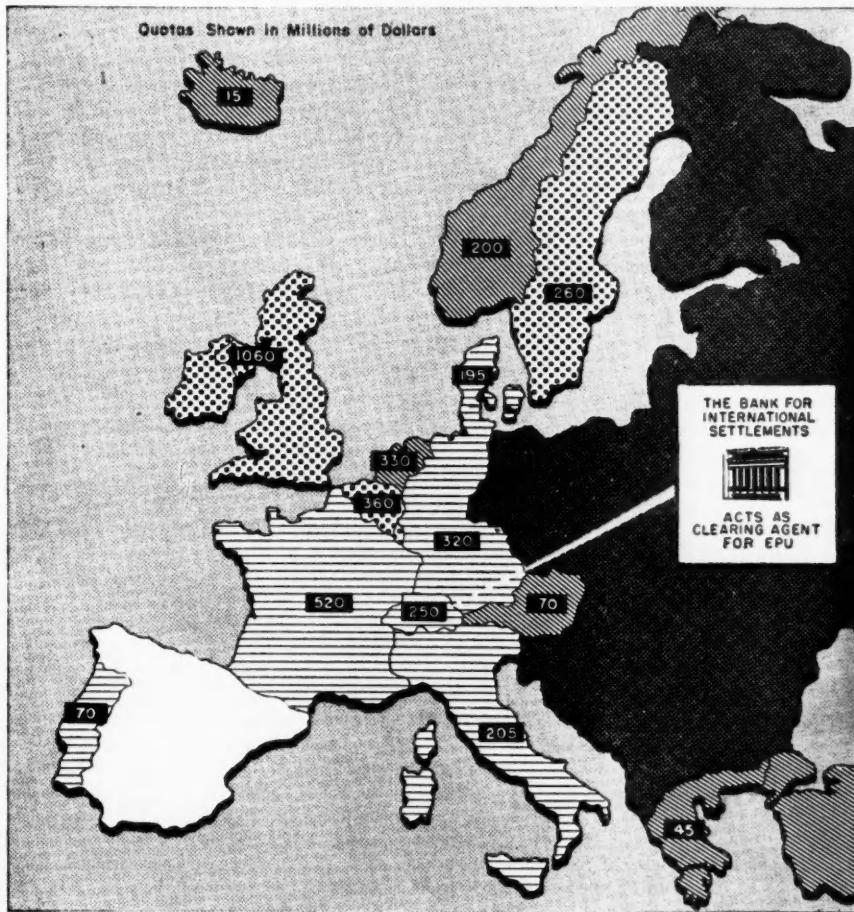
What of the dollar-sterling rate? Any idea that it would be adjusted again, so soon after the devaluation of 1949 and in the wholly artificial circumstances that now obtain, would seem to be pure fantasy.

At the same time, conditions are now being established in which it is possible to foresee sterling and the dollar living side by side without discrimination and without a prop of exceptional dollar assistance for sterling. It is high time all British authorities realised this fact and lost the defensive habits of thought acquired during the days of the dollar's inordinate hardness and scarcity—habits which produce actions and policies that can be so derogatory to sterling at a time when it deserves no such detraction.

# Quotas of the European Payments Union

The map shows E.P.U. quotas, which total 3,950 million dollars. These quotas determine the amount of credit and gold payments of each country at the periodic settlements of net balances in intra-European trade. Countries with "initial debt positions" which must be utilized before there are settlements under quotas (indicated by shading in dots) are: Belgium (half of E.C.A. aid for 1950/51), Sweden (all of E.C.A. aid for 1950/51), and U.K. (an amount equal to its net surplus from current transactions for 1950/51 up to million dollars). The quotas for each country are approximately 15 per cent. of its aggregate intra-European exports, imports, and current invisible transactions in the year 1949.

Countries with "initial credit positions" which must be utilized before there are settlements under quotas (indicated by shading in oblique straight lines) are: Austria (80 million dollars), Greece (115 million), Iceland (4 million), and Norway (between 30 and 70 million).



# U.S. Trade Surplus Declines

*A change in trend that makes possible a revival of multi-lateral trade and bodes well for the European Payments Union*

THE decline in the United States trade surplus in the first half of 1950 was due primarily to the falling off of exports (down 1,794 million dollars) and only secondarily to a rise in imports (up 425 million dollars). A sharp expansion in imports, however, began towards the end of the period. May imports were 120 million dollars and June imports 160 million dollars greater than in the corresponding 1949 months.

That this manner of closing the United States trade gap did not have the dire consequences predicted for such a development was due (1) to the sharp rise in United States business activity that occurred at the same time, (2) to the fact that the decline appears to have been in products not immediately required by Western Europe for the expansion of industrial activity or for the increase of its trade

and (3) to the large increase in intra-European trade.

The decline in the United States trade surplus with the Marshall Plan countries and their overseas territories (from 1,927 to 931 million dollars) was less proportionately than the overall decline—a little more than half, as compared with two-thirds. The surplus with the rest of the world declined 90 per cent. from 1,369 to 146 million dollars for the same period.

The reappearance during the first half of 1950, for the first time since the end of hostilities, of a deficit in the United States trade balance with the non-participating Sterling Area (Australia, South Africa, India etc.) and with Latin America was a development of the utmost importance. It marks the reappearance of the prewar multilateral trading pattern by which Western Europe earned dollars with

## CHANGES IN THE PATTERN OF UNITED STATES TRADE

(MILLIONS OF DOLLARS)

Area	JANUARY—JUNE, 1949				JANUARY—JUNE, 1950			
	Exports incl. Re-exports	General Imports	Trade Balance		Exports incl. Re-exports	General Imports	Trade Balance	
TOTAL	6,687	3,391	+3,296		4,893	3,816	+1,077	
E.R.P. Countries (Metropolitan)	2,349	440	+1,909		1,552	482	+1,070	
Participating Overseas Territories	326	308	+18		219	358	-19	
Sterling Area, non-participating	476	296	+180		293	322	-29	
Latin America	1,475	1,174	+301		1,233	1,281	-48	
Canada	1,031	739	+292		928	881	+47	
Other	1,030	434	+596		668	492	+176	

which to cover part of its dollar deficit with the United States. In the first half of 1950, the United States incurred a deficit of 77 million dollars in its trade with these areas instead of the surplus of 491 million dollars which accrued in the first half of the preceding year.

The sharp decline in the United States trade surplus with Canada (from 292 to 47 million dollars) and with the other areas of the world (from 596 to 176 million dollars) also did much to relieve the pressure for

dollars.

The decline in Western Europe's imports from the United States was made up in part by an increase in imports from other parts of the world but mainly by larger domestic production and the sharp increase in Intra-European trade.

The volume of intra-ERP trade rose from an average of 90 per cent. of prewar in the first half of 1949 to an average of 115 per cent. of 1938 in the first half of 1950, an increase of 30 per cent.

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#### DRAFT U.S. PLAN TO COVER DOLLAR GAP

The long-awaited "Dollar Gap" report by Mr. Truman's special adviser, Mr. Gordon Gray, is now at the inter-agency discussion stage. Modified and expanded by Korean developments, the draft report proposes a bold global American foreign economic policy. The report is still tentative and subject to major modification. As it now stands, however, the following are the most important recommendations:

- 1—The continuation of economic aid, separate and not subordinate to military assistance, to Western Europe for three or four years after the Marshall Plan ends. This would start at about the prospective amount of last year's E.R.P. funds—that is 1,500 million dollars to 2,000 million dollars declining in succeeding years.
2. Co-operative development programmes for the Middle East, South and South-East Asia, running for about eight years, financed by (a) Export-Import and World Bank lending increased from present 150 million dollars annual rate to about 500 million dollars to 800 million dollars; (b) direct U.S. grants of from 200 million to 400 million dollars annually; (c) technical aid grant of 50 million dollars; (d) continuation of recent private investment levels; (e) anticipated earnings of various countries from defence and stock-piling buying.
- 3—The administration of all U.S. non-military aid in a single new agency, with a strong voice on the lending policy of the Export-Import Bank and of the American delegation to the World Bank.
- 4—The immediate establishment of an international allocation mechanism for strategic materials.
- 5—The long-term extension of the Reciprocal Trade law; temporary power to the President to make unilateral tariff reductions.
- 6—Termination of the "Buy American" Law.
- 7—International negotiation to end the worldwide cargo preference schemes (as the only feasible way to end the U.S. 50-50 shipping clause and similar economically indefensible measures).
- 8—Recasting farm price support policy to minimise its worst effect against the rest of the world.

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# A New Slogan for America

by WILFRID HILL

*President Truman may be faced with the familiar problem of gluts and mass unemployment. He should look at the history of Britain in the 19th century ; he should " Import and Prosper "*

A high tariff boomerang from America was sent on its destructive flight 30 years ago. This at a time when all hope of recovery for a war-wasted world lay in recognising that international co-operation and restored freedom of trade were the world's greatest and most urgent needs.

Balanced trade with America thereafter became impossible. Exports to America which otherwise would have paid for imports were taboo. Debts, loans, reparations must be paid in gold. European gold reserves drained away, debts became unpayable and trade began to stagnate. What should have been a boom became a boomerang.

## Ruinous Missile

Then came the Hawley-Smoot tariffs, when the ruinous missile reached its maximum momentum and spun into reverse, bringing havoc and chaos as it did so.

The great slump, unemployed millions, idle ports and depressed areas of the Nineteen Thirties, the Second World War, were all part of that terrible turn and comeback. Now the boomerang comes back with a vengeance, with gluts of mass-produced output piling up into top-heavy surpluses, costing millions of dollars per annum for storage, and with the spectre of recurrent mass-unemployment lurking round the corner.

What is needed is America's prompt abandonment of high-tariff and protectionist policies and the restitution of a healthy two-way commerce, the exchange of goods for goods. If it be argued that an open door to imports in payment for exports would do nothing to solve America's surpluses problem, might not some solution be found by which an increase of purchasing power among the American people themselves would enable them to absorb more of their own output, plus imports ? This might be readily accomplished by reduced taxation of the lower-income levels. Surely American taxpayers would not say "no" to that.

May I remind the American people that some of the most prosperous years in British history were the seventy years of free trade which came to an end at the outbreak of the First World War, in 1914. When the seventy years came to an end, unemployment in Britain was the lowest on record.

## Free Trade

I had the privilege of living through many years of the British free-trade era, an era in which Britain built up a world trade and standard of living that was the envy of the world. In the course of a century the population and the wealth of Britain was quadrupled. The standard of living was the highest in the world and wealth was accumu-

lated which enabled Britain to finance not only its own prodigious war effort but also the efforts of its protectionist allies.

"Import and Prosper" should be a new American slogan.

In human affairs some resistance always develops when it comes to putting precepts into practice. Opposition by some shallow-thinking business interests is likely, but a drastic change in American trade policy is

inevitable. Recently President Truman said that one of America's important tasks was to create a sound economic system in the world based on the elimination of barriers to international trade.

"But," he continued, "the trade has to be on a basis of free competition and mutual benefit among nations that stand on their own feet."

Meanwhile the boomerang has not yet finished its flight.

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#### MARSHALL PLAN LESSONS FOR ASIA

The Marshall Plan has its lessons for Asia, too. It has two invaluable features which might be taken over ; firstly, the details of the European reconstruction schemes were prepared by the people of the country themselves, and not by any outsider, and secondly, the outside organisation has insisted on the setting up of what are known as "counterpart funds." This means that funds are put aside in the local currency equal in value to the outside grants. These funds can only be used for purposes agreed to by the Governments of the countries supplying the money and those receiving it. In most cases they are devoted wholly to development purposes. This is an excellent device for ensuring that a real development plan will emerge which, it can be insisted, must be designed to raise the standards of living of the people.

But who is to "insist"? Clearly not America alone—nor Britain, either. The United Nations is the obvious organisation for this momentous enterprise. An Asian Reconstruction Board under U.N.O. auspices might set the wheels turning. Through its medium the capital could be canalised, the technical experts marshalled, the development plans brought into being and approved, and the expenditure of the counterpart funds supervised. No political "strings" should be attached ; there can be no formal demands that nations adhere to this or that tenet of democracy. But at least a loyal adherence to the United Nations and its decisions might be required. The effect of all this on Asian governments—some of which are known to lack greatly in efficiency and integrity—may well be immense. How, after all, is a corrupt regime to be maintained under the eagle eye of international observers? Deviate one inch from the approved development plan, and the flow of dollars and sterling may be threatened ! And a new public opinion may be heard from within as the confidence of the people increases. In the case of Asia, there should be provision for an addition to these orderly development plans—to meet cases of emergency, relief measures might be suggested, administered perhaps by a special agency on the lines of the former U.N.R.R.A. organisation. Finally, in implementing a reconstruction plan for Asia, one thing, above all others, must be understood about Asia with its inflamed nationalism—and that is that the white man, unless invited, is not wanted. It would be wise, therefore, in any international aid scheme to use as far as possible technicians and administrators of the coloured races; the white man must not dominate the scene.

# Perils of a Budget Surplus

*Can the running of a budget surplus really add to the*

This message is addressed to the professional man; to the man running his own business; to the man who prefers the adventure of living by his own individuality—in short, to the man of courage.

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inevitable. Recently President Truman said that one of America's important tasks was to create a sound

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# Perils of a Budget Surplus

*Can the running of a budget surplus really add to the volume of savings? The dilemma is that a surplus generally requires such high rates of taxation that the public may reduce its rate of saving and production, the final result being a net loss of free resources*

**I**N the year 1949, it was seldom necessary to resort to inflationary financing for the purpose of covering budget deficits. This, however, is not the only criterion by which the soundness of a country's public finances may be judged: it is, indeed, imperative that the budget in its widest sense (including all public charges) should be balanced at a level which does not put too heavy a burden on the economy and, in particular, does not

(i) dangerously diminish incentives or the propensity to take risks,

(ii) dangerously impair the flow of private savings.

In either of these eventualities, enterprise would suffer and, with it, the volume of production and the standard of living.

That heavy "marginal" taxation may keep people from making extra efforts is generally appreciated, and proposals are being worked out in many countries to reduce as far as possible the danger of such damaging effects and also to allow fiscal facilities in the case of special risks, e.g. in connection with exports and foreign investments.

But little can be done to achieve any radical improvement as long as the overall burden is very heavy; for sufficient revenue must, of course, be collected for expenditure to be covered and, if expenditure is large, complete

avoidance of all forms of taxation with definitely harmful effects is clearly impossible.

As regards the effect of the budget policy on savings, certain distinctions should be made. On the one hand, the aim may be to secure a temporary budget surplus as part of a compensatory fiscal policy, i.e. a policy adopted in times of great prosperity in order to mitigate the exaggerations of a boom; or there may be an attempt to form savings by means of a budget surplus in order to provide a part of the capital regularly required for normal investments in the economy. If, in the former case, taxation has the effect of retarding an expansion of business, this is just what is desired; and when the boom subsides the tax rates should be lowered.

## Diminishing Returns . . .

In the second case, however, the more general question arises whether *bon an mal an*, the running of a budget surplus can effectually add to the volume of savings in a country. Very likely this question cannot be answered in abstracts: much depends upon the level of total charges, since a given increase in the revenue collected may not reduce the rate of saving as much in a country with a low level of taxation as in a country where the tax

*continued overleaf*

burden is already very heavy.

Unfortunately, since the second world war taxation has been high almost everywhere, so the problems here involved usually present themselves under the worst possible conditions. The dilemma is that the attainment of a budget surplus generally necessitates such high rates of taxation that the public may reduce its own rate of saving and that, owing to the unfavourable effects of high taxation on incentive, the final result may be a net loss of free resources.

#### ... And Further Problems

That this may be the case is, of course, recognised by serious investigators no matter what "school" they belong to. In his book "The Dollar Crisis: Causes and Cure" (Basil Blackwell, Oxford 1949), T. BALOGH expresses the opinion that, to ensure a desired rate of progress, "saving will have to be either collective i.e. through a budget surplus, or collectively enforced i.e. by maintenance of rationing.

"A budget surplus alone, however, would not guarantee that a degree of dissaving would not ensue, sufficient to reduce net savings below the rate desired." For that reason, controls (including various methods of rationing) have also to be applied; but Mr. BALOGH mentions that "it can be, and has been, argued that rationing by diverting excess purchasing power towards innocuous uses has the same disincentive effect as taxation".

While Mr. BALOGH finds that with regard to these difficult questions no final proof has yet been furnished, it

is important to bear in mind that, in his opinion, the realisation of a budget surplus is not in itself enough to secure a net increase in the flow of savings.

In judging the true burden of taxation, account must be taken not only of the bare percentage relation to the national income but also of a number of other circumstances. Although difficult to measure, the ratio of taxation to the margin of average income above the subsistence level is clearly of importance, and in a country with a relatively low income per head the subsistence minimum will swallow up a very high proportion of the average income.

It is also notoriously difficult to obtain tax payments from farmers—a fact which will make itself felt in Italy, for instance, where 48 per cent. of the population are engaged in agriculture and a relatively large proportion of them cultivate very small lots.

#### Making the Best of It

In this field there are still many questions awaiting solution—one European country after the other being occupied with problems of "fiscal reform" and of adjusting expenditure to levels at which it is safe to maintain it. In that connection it is not only a question of current revenue and expenditure but also of outlay for investment and how to cover such outlay—a question which has to be considered as part of the general problem of how to make the best of scarce resources in any economy.

# New Source of Power in Italy

*One day, Italy will produce several million cubic feet of methane. In a couple of years, a factory network of methane pipes will cover 1,500 kms.*

ITALY'S natural gas resources are remarkable. At present only part of the Po Valley—in Northern Italy—has been explored with modern geo-physical methods and the results have been noteworthy. It is now necessary to complete the exploration of Northern Italy and to undertake that of Central and Southern Italy.

Considerable and important signs of methane have already been observed in other parts of the country: Tuscany, the Marches, Abruzzo, Lucania and Sicily, while hopeful signs are apparent also in other regions (Umbria, Latium, etc.), so that it is not too much to hope that one day in the not too distant future, when all Italy's methane deposits are being exploited, national output will rise to several thousand million cubic metres.

Methane is one of those products best suited by nature to weather economic depressions since it has so many different uses: fuel for all purposes, a source of electric power, and a raw material for a large number of important chemical products: lamp-black, acetylene, methyl alcohol, carbon tetrachloride, chloroform, medicines, plastic substances, synthetic ammonia, synthetic rubber, etc.

Until a short while ago methane was used mainly for motor vehicles in place of petrol. Now that the fuel market is back to normal again, its

consumption has shifted over to industrial and domestic heating.

In 1947 and 1948 the distribution of consumption by categories was more or less as follows: 60 per cent. as fuel for traction (for motor-cars, trucks, buses and railway cars on the secondary lines); 15 per cent. for private heating (distributed by the gas-works mixed with coal gas); 20 per cent. for industrial heating (glass-works such as Vetrocoker, steel works such as Dalmine, furnaces, sugar factories, etc.) distributed by methane pipelines. The remaining 4 per cent. was used for various purposes (agriculture, small power stations, etc.)

## Industrial Uses

In 1949, however, there was a considerable increase in the consumption of methane for industrial purposes since the new methane pipe-lines which started working that year connected large industrial sectors (Milan, Bergamo, Porto Marghera, etc.). The replacing of coal by methane led to a considerable saving and benefited the factories' administration, consequently a large number of applications are being sent in by factories asking to have methane gas laid on. In a couple of years the network of methane pipe-lines is expected to cover 1,500 km.

The latest prospects regarding the

utilisation of methane refer to the generating of electricity since a serious seasonal shortage of power made itself felt last autumn as a result of the persistent drought and the fact that the building of new power stations had come to a standstill during the war.

But where methane will be found most useful is in the big chemical factories for the preparation at a low cost of products which are of outstanding interest in every-day life (synthetic rubber, medicines, plastic substances, fertilisers, etc.)

Let us now see what is the present importance of the methane output as compared with other power sources. The technical board of the Edison Group calculates Italy's supplies of the different types of power on the basis of mineral coal (low grade anthracite). Italy is thus seen to have had the following supplies in 1948 :

- (1) Solid fuel produced (anthracite, Sulcis coal, wood charcoal) equivalent to 710,000 tons of low grade anthracite ;
- (2) Imported coal : equivalent to 8,350,000 tons ;
- (3) Imported liquid fuel (petroleum, etc.) : equivalent to 3,710,000 tons ;
- (4) Electricity produced (hydric and geothermal) : equivalent to 21,650,000 tons ;
- (5) Electricity imported : equivalent to 190,000 tons ;
- (6) Fire-wood and wood coal : equivalent to 4,190,000 tons ;
- (7) Methane produced : equivalent to 210,000 tons.

To the above may be added the petroleum produced by Italian wells which, however, is only valued at 12-15,000 tons of low grade anthracite.

If the various power sources had been reduced to kWh. instead of to calories, if that is to say they had been considered not with regard to their heating power but with regard to their motive power, the incidence of methane could be seen to have been at least three times greater in reality.

### Making Comparisons

When making a comparison with imported petroleum, moreover, a deduction of 20 per cent. must be made to begin with to make allowance for losses in processing on the quota of crude oil imported and to take into account also certain refinery by-products which cannot be used as fuel (fats, pitch, lubricating oils, etc.). This brings the quantity of petroleum imported in 1948—converted into low grade anthracite—down to about 3 million tons. It will then be seen that methane replaced about 7 per cent. of the petroleum requirements in 1948. In 1949 this percentage is estimated to have risen to 12-13 per cent.

If round about 1952-53 Italy succeeds in producing about 500 million cubic metres of methane, the equivalent in low grade anthracite will be about 1 million tons and the equivalent in petroleum about 500,000 tons.

# Asia Wants Help Without Patronage

*Communism cannot be contained without foreign aid; and a union of South-East Asia could make itself a fortress of liberty. But the fortress cannot be built without foreign capital—and the capital must be given without onerous political and economic conditions*

THE attitude of South-East Asian countries towards foreign aid, notwithstanding numerous statements on foreign capital, remains clouded in uncertainty. And at least because of this uncertainty, the unfavourable impression that we have created in lending countries is understandable though we contend it is by no means justified.

The distinction is between private investment which is invited, and foreign aid which hitherto, except in Indo-China and Indonesia, is not. The argument seems to be that, in one case, that of private investment, no national obligations arise. Risk capital takes its chance as capital throughout the 19th century took its chance and did pretty well. Foreign aid is a different matter. Foreign aid is linked with politics; it is unthinkable that any large foreign aid would be given to a country without an implication at least that a political alliance, however loose in phrase, was in operation.

The shyness of the South-East Asian countries to accept foreign public capital can be explained in these terms. But to explain a difficulty is not to resolve it. And unfortunately the area of choice between private foreign capital and public foreign aid has all but disappeared. The volume of private

foreign investment which has been attracted to South-East Asia in the last year is negligible, and it certainly looks as if the situation is not likely to change for some time. The South-East Asian countries have, therefore, to consider in the short period foreign aid or nothing. And the question has to be answered whether nothing is our choice.

## Three Possibilities

Our statements on foreign policy are unhappily so exclusively occupied with issues of principle that there arises in them no examination of the economic issues involved. There are three, and only three, alternatives for South-East Asia at this time. We may accept a limited measure of foreign aid restricting it to mere transactions with a commercial rendering; or we may accept a full-fledged scheme of foreign aid, either individually or collectively, on the pattern of the European Recovery Programme; finally, we may decide that the conditions of aid are so onerous that we would prefer to do without. Our choice should now be made of one of these alternatives; it does us no good to leave the matter still clouded in a haze.

So far as India and Pakistan are concerned, they cannot, over the

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long period, without a radical alteration in the structure of their capital formation activities, maintain their current standard of life without foreign capital unless the rate of population growth fairly steeply declines. A similar proposition certainly holds for Indonesia and it is likely to hold for Burma and Indo-China. It is probably not true of Thailand or of Ceylon or Malaya. But taking

South-East Asia as a whole it may be said that, unless there is a quite significant movement in the terms of trade in favour of countries whose strength is in primary products, the area will not be able to maintain any economic advance without a considerable net inflow of foreign capital.

### The Enemy Within

We do not think that the study of the history of our time accords with the belief that the containment of Communism, whether in Europe or in Asia, can be accomplished without foreign aid. The time may come, when, true to Biblical prophecy, the meek will inherit the earth. But that time is not yet. South-East Asia will need to make itself strong as Britain made herself strong with Eastern trade and America made herself strong with British capital.

A South-East Asian Union which includes India, Pakistan, Ceylon, Burma, Malaya, Indonesia, Thailand, the Phillipines and Australia can make itself an impregnable fortress of Asiatic liberty. But the building of such an edifice in a short period without foreign capital is impossible even if there was not standing without—as well as within—the danger of Communism, a system of life in which that liberty would at once be engulfed beyond all hope of repair.

### LECTURES ON STATISTICS

The City of London College, Moorgate, London, E.C.2. is running a course of lectures on statistics to prepare students for the Certificate Examination for Fellows of the Royal Statistical Society. First year classes are on Wednesdays and second year classes on Tuesdays. Fees are £1. 10s. for either and £2 for both series.

# Break the Emigration Deadlock!

by PROFESSOR WILHELM ROEPKE

THE present restrictions on international migrations are among the most paradoxical phenomena of our time, since they *legally* hamper the movements of men from one country to another at a time when *technically* such movements are acknowledged to be most desirable. They can be understood only as a very important and deplorable example of present tendencies towards national collectivism. They are disquieting because international migrations have essential economic and social functions to fulfil. These are as follows: the situation of the poorer countries can be alleviated either through free international exchanges of goods and services or through free international movements of capital and labour. The poorer (overpopulated) countries should be able either to export goods and services, or export men, or import capital. When one of these ways is closed, the others should all the more deliberately be kept open. If all of them are closed, then all possible safety valves are blocked up, and the consequences are unforeseeable.

However, some of the arguments which are usually brought forward in favour of restriction on migrations deserve to be examined accurately. Apart from the sociological reasons (in favour of a qualitative immigration control), it may be argued from an economic point of view that any nation may aspire to having a population of the right size. Restrictions on immigration then emerge as an instrument

of population policy. But even this argument has its weaknesses and this is also true of social policy arguments in favour of the restrictions on immigration. They cannot be defended as measures for the protection of the home labour market or as a means of preserving employment.

The case may be summarised as follows:

(1) Present restrictions on immigration of individuals eminent in the economic and intellectual fields are inexcusable.

(2) Concerning mass immigration, the right of a country to qualitative control and preservation of a population as homogeneous as possible cannot be disputed. However, the necessary national assimilation is all the easier the more a policy of decentralization of industries and "deproletarization" is adopted.

(3) On the other hand, a liberal migration policy is encouraged in the immigration country when the emigration country's economic and social policy aims at diminishing the desire to emigrate (land reform "deproletarization," etc.). What should be striven for is that the largest possible number of individuals may have full freedom to emigrate, but that only the smallest number shall have a desire to take advantage of that freedom.

(4) As the selection of immigrants is very important from the point of view of the real needs of the immigration country, special organizations should be created for that purpose.

# Manchester Made Them

by KATHARINE CHORLEY

**T**HIS book falls into an important class: a class from which every economist should be obliged to read at least one volume per annum, to save him from the folly of prescribing economic medicine which the patient will not swallow.

It tells of the Hopkinson family, of which the author is a member, a deservedly famous Manchester family most of whose members came to power at the beginning of the managerial revolution. The Hopkinsons made national as well as local history, for John, eldest of a large family, "...emerged in 1871 as Senior Wrangler in the Mathematical Tripos and first Smith's Prizeman. According to custom he would at once have been offered a fellowship of his college, Trinity. But the presentation to a fellowship still involved written adhesion to the Articles of the Church of England and John refused to sign. The Hopkinsons were quite willing to slip into the Church of England when they felt like it and most of them did at a later date, but no power on earth would have forced any one of them to surrender an inch of religious principle in order to win honour or a job or to satisfy the law.

"However, the fellows of Trinity who had no wish to lose him met and resolved that the Thirty-nine Articles and not the young man from Manchester must go. Subscription to religious articles should no longer be required as a condition of proceeding to a fellowship. So John became the *casus belli* for the final fight in this

country for religious equality before the law."

But John did not stay at Cambridge. He became an engineer and director of the well-known firm of Mather and Platt, and died in the fullness of years with three of his children climbing in the Alps. Two other brothers found their ways through the universities into the business and professional life of Manchester: Alfred, to become in due course Vice-Chancellor of Manchester University; Edward, the author's father; and Charles, who went into the family engineering business.

## The Background

Now let us take a look at the background of their lives: "John was too much absorbed and insulated by his science to be personally ambitious, but father and Uncle Alfred were charged up with ambition, and their mother encouraged them by her admiring contemplation of their careers, not to the increase of their happiness.

"It was also, I think, indirectly thanks to this attitude of hers that they almost worshipped brains and too readily judged a successful life in terms of getting to the top of the tree, any tree, political, scientific, ecclesiastical, military, commercial, academic. An odd sideline, this attitude of granny's, to the main religious theme of her life.

"And yet it was not really inconsistent. It was the Nonconformist ver-

sion of St. Benedict's motto, a version which in its new application would certainly have appeared strange and perhaps repellent to the monks who had cleared and drained and tilled Yorkshire dales and sent up their prayers from grey abbeys beside trout streams.

"For the Nonconformists of the nineteenth century tried to contract for the kingdom of heaven by means of the laborious days they lived on earth. And success was a yardstick of hard work and therefore all too easily a sign that you had lived well and frugally in the sight of God. Their hopes were contained in a very literal and concrete interpretation of the Parable of the Talents. They were all on the side of the man who had multiplied the most the talents entrusted to his care."

Well, now we have it: the nonconformist context of Manchester Liberalism of the end of the last century and the beginning of this. But "the doom for which their philosophy was indirectly responsible was the slum cities of Lancashire", says the author, and yet wisely hastens to remind us that that blinkered philosophy conferred upon all of us, even upon the slum-dwellers, "a thousand material benefits."

The Hopkinsons were characteristic of their neighbours in what now seems the intolerable smugness of Alderley Edge Society, a community as separate as a Hindu caste. "...Our neighbours were certainly not struck from one pattern or run into one mould. They had, however, one common and dominant characteristic which perhaps accounts for the Manchester myth. This was their acceptance of the economic system which had produced Alderley Edge. Indeed, acceptance is too passive a word, for they believed positively in the system; it was for all of them a fundamental article of social faith.



LADY CHORLEY

"A socialist was unthinkable in that company and had he got there he would have been treated with a mixture of distrust, contempt and fear. Yes, fear, but a fear born of exasperation at the waste of energy from interference with the system rather than a fear deriving from any surmise that the system might be successfully overthrown.

#### Fear of Socialism

"He might have made them afraid, too, for a subtler reason which they would hardly have recognized or admitted. A socialist's scheme of social values is expressed in material terms, but it is, or should be, derived from moral and even spiritual premises, belief in the innate dignity of each individual man and woman and the fundamental rights and safeguards and equalities which spring from that.

"The Manchester men's scheme of social values was also expressed in

material terms, but first and foremost the scheme was valid for themselves and their families, and it was argued from the alleged necessity of the battle for success and from the odd confusion of thought produced by marrying that old puritanical conception of thrift as a virtue to the utilitarian idea that the self-interest of one is really the best long-term interest of all. They thought of *laissez-faire* economics almost in terms of a cosmic process . . ."

The march of history was, however, towards the abyss, and over the edge it went in 1914. Alderley Edge and all it stood for received two death blows, for after the war came the blowing of the bubble of wild speculation in the cotton industry followed by the inevitable burst. Some of those engaged in it got out while the going was good.

### The Epitaph

"The epitaph of the Lancashire Cotton Industry is written on the tombstones of Bournemouth", quotes the author in pardonable bitterness. But the Hopkinsons were not quitters: they still clung to the old motto of *noblesse oblige*.

Just in passing, one would not have thought it possible to write such a book as this and mention Manchester's famous school only once, very incidentally, and writing it with a small "g" and a small "s"—"Manchester grammar school." Perhaps an old Mancunian may return the compliment and record that we of a lower caste had no notion that Alderley Edge was inhabited by an aloof aristocracy, that its code had superior authority to that of Sinai, or indeed that Alderley Edge was anything except a pleasant enough place for a bicycle run on a Saturday afternoon.

Well, 1914 came and knocked Alderley Edge to bits. It destroyed its code and swept away its values,

which was not all to the good, for some of the values were truly precious and we would like to have them back again. Here is one that we can well dispense with, however:

"Odd that so few, relatively speaking, of those Victorian Liberals whose blood surged when they read about Neapolitan prisoners or negro slaves, thought to include in the sweep of their generous indignation the economic serfdom on their own doorsteps. Selective indignation spoilt their claim to champion the weak and men like Sir William Mather, whose indignation was not selective but all-inclusive, towered above their ruck."

But what about the bit at the end? When time marched over Alderley Edge it trampled all over the few enlightened ones as well as the blinkered and arrogant snobs. So we are bound to look back in sympathy with the author's nostalgic streak:

"We have substituted a sentimental subjectivism for the virile and uncompromising conviction of personal responsibility to which our parents subscribed. And further enlightened by the creative evolutionists who explained to us that conscience and ethics are simply varying products of the experience of countless generations of human beings striving to bond themselves into societies in order to live, we have obliterated the distinction between social morality and personal sin."

### A Faith is Needed

"My generation makes mistakes but it does not commit sins . . . We have condemned the economics of capitalism because they enslaved men for the sake of a material gain. But a condemnation is not an affirmation, a condemnation is only half the mental battle. We are too fogged and uncertain to make an affirmation. So the quantitative economic means is confused with the qualitative end, the

material process with the purposes of the human spirit.

"Our fathers and grandfathers permitted men's bodies to be broken and their minds stunted in the interests of an economic machine, but we are in a fair way to extinguishing men's souls because we have not been able to see ahead to lead beyond the process of more this and more that, more radios, more speed, more houses, more efficiency, more children, more education, more entertainment, more leisure, even more work, abstract and concrete, serious and trivial all mixed up together—we cannot see ahead to any goal and purpose for it all that has an absolute and therefore a satisfying value. *Cui bono?*"

Why did it have to happen? Lady Chorley thinks the reason is somewhere around the following point, and who shall gainsay her?

"It did not appear to occur to my father that the motives of service to shareholders' profit and service to the community are not often easy bedfellows, and that an industry which loyally serves the one will have to be differently conducted in order that it

may as loyally serve the other. Private profit can be a by-product of service to the community, or service to the community can be a by-product of private profit, but they can never exist as equals.

"Yet father regarded service and profit as twin pillars on which the structure of industry could be firmly raised. For he still lived in the mental climate of the 'entrepreneur' to whom profit is the natural reward for the risks he takes and competition the guarantee of efficiency and volume of production. Those were still the days when capital was likened to the 'goose which lays the golden eggs'; if you kill the goose you get no golden eggs.

"I have often wondered how his thought would have developed had he lived through the inter-war years and witnessed the internecine struggles of the great firms to maintain themselves by cartels and combines and monopolies and the squeezing out of lesser firms by financial manipulation and the limiting of production in a world crying out for the good things of material life."

H.S.G.

## SHORTER BOOK NOTICES

### JAPAN'S ECONOMY IN WAR AND RECONSTRUCTION

*Jerome B. Cohen (University of Minnesota Press, Minneapolis and Geoffrey Cumberlege, Oxford University Press, London, 1949, 63/- or 7.50 dollars)*

Issued under the auspices of the Institute for Pacific Relations, this book is a carefully documented account of Japan's economic development from 1937 to 1949. The author has special qualifications. During the war he was a Japanese language officer with the U.S. Naval intelligence; after the war he served in Japan with the U.S. Strategic Bombing Survey. He has been able to use Japanese material on the war, which fell into the hands of the Americans, and also to discuss Japanese war economy with officials and industrialists who took part in its development.

Mr. Cohen confirms many popular

suspicions about the final collapse of the Japanese economy: "By the middle of fiscal 1944 the Allied attack on shipping had so reduced the importation of raw materials that not only was a further rise of total output impossible, but the foundations of basic industry crumbled. It may be said that in a large measure Japan's economy was destroyed twice over, once by cutting off the imports and secondly by air attack."

Not much information on Japan's economy during the past decade has been available. This thorough study fills the gap.

*continued overleaf*

## READINGS IN BUSINESS CYCLE THEORY

(*Blakiston Series of Republished Articles on Economics, Vol. II. Selected by a Committee of the American Economic Association under the chairmanship of Gottfried Haberler*)  
 (George Allen and Unwin Ltd., London, 1950, 25/-)

This book was originally published in America in 1944, and by issuing it in Britain the publishers have done a great service to students and laymen interested in economics. It is an original and useful idea to present the most important recent articles on a given subject—in this case, business cycle theory—in the form of a textbook; material which was widely dispersed in periodicals, becomes accessible and easy to handle. The present volume contains 25 articles on all aspects of the business cycle theory, and a classified bibliography running to 42 pages. Naturally, much space is given to the discussion of Keynes' theory (in

articles by Haberler, Machlup, John M. Clark, P.A. Samuelson and John A. Williams), but the Swedish school is not neglected and other articles (by D. H. Robertson, R. G. Hawtrey and F. A. Hayek) deal with the monetary theory.

The discussions of underconsumption and of special commodity cycles by American authors are specially interesting. Among the more general theories, Schumpeter's Analysis of Economic Change should be studied with respect. The selection Committee is to be congratulated on its work. This volume will give enlightenment and pleasure to all who are interested in economics.

## WORTH READING

**World Population and Food Supplies.** *Barclay's Bank Review.* A sober study, with statistics and statistical diagrams, of a subject that is too often treated partially or hysterically.

**Italy's Foreign Trade: Its Development and Most Recent Trends.** RENATO AFFRICANO, *Bancaria, Rome, July 1950.* Structure of Italian trade is improving: Italy is evolving from an economy of consumption to a stage of productive expansion.

**The Nation Re-arms.** *Monthly Letter, National City Bank of New York, August 1950.*

**Uniform Cost Accounting—A survey (Part I).** DAVID SOLOMONS, *Economica, London, August 1950.* A plea for consistency in fields where at present there is the widest variation.

**Boletin Informativo, Direccion Nacional de Granos y Elvadores, March 1950.** MINISTERIO DE ECONOMIA, *Buenos Aires.* A necessary reference publication on the economy of Argentina.

**Exchange Equilibrium.** JOAN ROBINSON. *Economie Internationale, Rome, May 1950.* Important theoretical essay in which the author examines the phrase "Fundamental Disequilibrium" in the Bretton Woods Final Act.

**Die Weltwirtschaft Mitte 1950.** *Institut fuer Weltwirtschaft und der Universitaet, Kiel, July 1950 DM. 5.* First of a bi-annual series of reports on world economic conditions. After a general review, more detailed surveys are given of U.S.A., Canada, Latin America, the overseas sterling area, Britain and Western Europe, followed by a short description of the situation in important commodities. Of particular value are the statistical tables containing the key data for 17 countries.

**Die Entwicklung des Finanzausgleichs im Deutschen Reich und in Preussen von 1919 bis 1944.** DR. HANS-ERICH HORNSCHU, *Kieler Studien, Vol. 3. Kiel 1950.* DM.12. The problem of federal finance has again become topical in Western Germany. This study gives the background by describing the developments in the Reich since 1871 and in more detail after 1919. It is also of interest to the general specialist in finance.

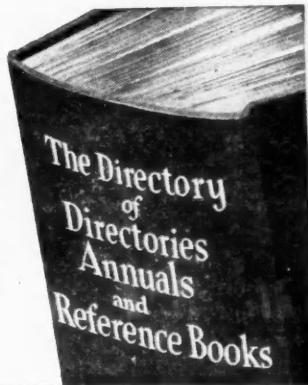
**Strukturwandlungen und Nachkriegs Probleme der Wirtschaft Norwegens.** DR. HUGO HEECKT, *Kieler Studien, Vol. VIII, Kiel, 1950.* A short survey of post-war problems and policies in Norway.

**Die Belastung durch die personliche Einkommensteuer in Deutschland, England und den Vereinigten Staaten.** DR. RUDOLPH BINDER, *Kieler Studien, Vol. XI, Kiel, 1950, D.M. 15.*—A very interesting contribution to the discussion of taxation-levels in different countries.

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